

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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R 300734Z SEP 75

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 1385

INFO AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE KUALA LUMPUR 5797

E.O. 11652: N/A

TAGS: EFIN, EGEN

SUBJ: MALAYSIA MOVES TO BASKET OF CURRENCIES  
TO DETERMINE RATE OF EXCHANGE OF RINGGIT

1. ON SEPTEMBER 27, FINANCE MINISTER HUSSEIN ONN ANNOUNCED THAT, BECAUSE OF SUBSTANTIAL FLUCTUATION OF US DOLLAR, IT IS NO LONGER DESIRABLE FOR BANK NEGARA TO DETERMINE RATE OF EXCHANGE OF RINGGIT IN TERMS OF US DOLLAR ALONE, AS THIS HAS RESULTED IN FLUCTUATION OF THE RINGGIT, OR TO BUY AND SELL US DOLLARS TO MAINTAIN A RATE SO DETERMINED. INSTEAD, VALUE OF RINGGIT WILL BE DETERMINED IN TERMS OF CURRENCIES OF SIGNIFICANT TRADING PARTNERS. THIS EXPECTED INSTILL GREATER STABILITY IN VALUE OF RINGGIT RE OTHER CURRENCIES.

2. MINISTER HUSSEIN STATED FURTHER THAT, TO PREVENT SPECULATION, BASKET OF CURRENCIES USED WOULD NOT BE REVEALED.

3. HE FURTHER EMPHASIZED THAT FOREIGN EXCHANGE MARKET AND BANK NEGARA INTERVENTION THERIN WOULD CONTINUE  
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UNCHANGED AND NOTED BASIC STRENGTH AND RESILIENCY OF

MALAYSIAN ECONOMY, CITING OFFICIAL FOREIGN EXCHANGE RESERVES AT END OF AUGUST OF M\$3.9 BILLION (US\$1.00 EQUALS M\$2.5), SUFFICIENT TO FINANCE SIX MONTHS RETAINED IMPORTS AT CURRENT LEVEL.

4. NEW STRAITS TIMES EDITORIAL SEPTEMBER 27 SIMILARLY COMMENTED ON WELL-BEING MALAYSIAN ECONOMY, NOTWITHSTANDING DIFFICULTIES CAUSED BY WORLD-WIDE RECESSION. EDITORIAL ALSO NOTED THAT SINGAPORE DOLLAR RECENTLY BECOMING STRONGER THAN RINGGIT IS NOT CAUSE FOR EXCITEMENT.

5. COMMENT: WITH RECENT STRENGTHENING OF US\$, RINGGIT HAS DEPRECIATED FROM ABOUT M\$2.3 TO M\$2.56 AT PRESENT. GOVERNOR BANK NEGARA EARLIER INFORMED ECON COUNSELOR THAT BANK NEGARA DOES NOT FIGHT TREND BUT DOES, OF COURSE, INTERVENE TO SMOOTH FLUCTUATIONS. CHIEF ECONOMIST BANK NEGARA COMMENTED THAT, WITH US\$ ITSELF FLOATING, IT UNREALISTIC TO CONTINUE DETERMINE RINGGIT IN US\$ TERMS ALONE, NOTING GREATER USE BY OTHER COUNTRIES OF BASKET OF CURRENCIES CONCEPT. TRADE STATISTICS SHOW PRINCIPAL TRADING PARTNERS TO BE SINGAPORE, JAPAN, US, UK, NETHERLANDS AND WEST GERMANY. INCREASED STABILITY OF RINGGIT THROUGH USE OF BASKET BY MALAYSIA SHOULD REDUCE NEED FOR BANK NEGARA INTERVENTION AND FACILITATE FOREIGN COMMERCIAL TRANSACTIONS. COMMENTARY ON RELATIVE STRENGTH RINGGIT AND S\$ APPEARS REFLECT GOM CONCERN THAT RECENT RELATIVE WEAKENING OF RINGGIT (DESCRIBED IN EDITORIAL AS TEMPORARY) WILL BE INTERPRETED BY PUBLIC AS REFLECTION SERIOUS PROBLEMS WITH MALAYSIAN ECONOMY, WHICH IN FACT IS UNWARRANTED. UNDERHILL

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